STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Ameren Rate Cases	:	Docket Nos. 07-0585 – 07-0590 (Consolidated)

REPLY BRIEF ON EXCEPTIONS OF THE STAFF
OF THE ILLINOIS COMMERCE COMMISSION

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August 27, 2008

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REPLY BRIEF ON EXCEPTIONS OF THE STAFF OF THE ILLINOIS COMMERCE COMMISSION

Pursuant to Section 200.830 of the Illinois Commerce Commission's ("Commission") Rules of Practice, 83 Ill. Adm. Code 200.830, Staff of the Illinois

Commerce Commission ("Staff"), by and through its undersigned counsel, respectfully submits this Reply Brief on Exceptions to the Briefs on Exceptions ("BOE") filed by the Ameren Illinois Utilities, Central Illinois Light Company d/b/a AmerenCILCO ("CILCO"), Central Illinois Public Service Company d/b/a AmerenCIPS ("CIPS"), and Illinois Power Company d/b/a AmerenIP ("IP") (collectively, "Ameren", the "Companies", or "AIU"); the Illinois Industrial Energy Consumers ("IIEC"); the People of the State of Illinois (the "AG"); The Citizens Utility Board ("CUB"); the Cities of Champaign, Urbana, Decatur, Bloomington, and Monticello and the Town of Normal ("LGI"); the Commercial Group ("CG"); the Grain and Feed Association of Illinois ("GFA"); Constellation NewEnergy – Gas Division, LLC ("CNE-Gas"); the Kroger Co. ("Kroger"); and Staff; which were filed on August 20, 2008, in response to the Administrative Law Judges' Proposed Order issued on August 11, 2008. Staff addresses issues to which it replies in the order in which they appear in the Proposed Order.

IV. RATE BASE

C. Contested Issues

1. Plant Additions Since Last Rate Case

<u>Response to Ameren</u>

Ameren's Brief on Exceptions cannot be relied upon in determining whether Staff's adjustment to plant additions since the last rate case should be adopted. In its Brief on Exceptions, Ameren claims that its books were audited and thus, it is inappropriate to adjust audited numbers, that Ameren provided sufficient documentation for its plant additions, and that Staff's review method was insufficient. These arguments are desperate attempts by Ameren to justify its lack of attention to the required record keeping rules.

Ameren's Brief on Exceptions refers to a transcript citation where Mr. Nelson maintains that Ameren's general ledger must be completely accurate since it has been audited by various auditors. (Tr., p. 1231, July 1, 2008) However, later in re-cross-examination, Mr. Nelson admitted that he did not know what each auditor's level of materiality was in regard to Ameren's plant additions. (*Id.,* p. 1232) The materiality threshold for exceptions is high for large corporations such as Ameren, thus, individual plant additions of each operating utility likely have not been reviewed by anyone outside Ameren other than Commission Staff. The fact that Ameren's financial statements have been audited does not mean that individual invoices for plant additions have been reviewed by Ameren's external auditors. Staff's analysis is unique.

Ameren's recent persistence in erroneously claiming that if it provides its general ledger that Staff can make no adjustment since the general ledger is part of the Ameren Corporation's audit is absurd and must be ignored. (*Id*., p. 1231; Ameren BOE, p. 8) Along with this discussion is Ameren's coining of a new term, "ledger-reported" costs which is used in Ameren's Brief on Exceptions for the first time in this proceeding (Ameren BOE, p. 10), but was not defined. Presumably, this means that once a cost becomes a "ledger-reported" cost, it is cast in stone and cannot be challenged since it is "ledger-reported".

Ameren claims that 96% of Staff's disallowed plant additions costs were supported by paper invoices and rebuttal testimony. (Ameren BOE, p. 7, footnote 4 and p. 10) This statement insinuates that each paper invoice that was provided actually supported the corresponding entry in the general ledger. However, Staff proved this to be fiction with Ameren's own summary listing and Ameren's responses to Staff's detailed follow-up data requests regarding Ameren's Ex. 19.12. Staff extensively discusses in its Initial Brief, the detailed reasons which demonstrated the lack of credibility of Ameren's rebuttal testimony production of documents. (Staff IB, pp. 24-33)

Ameren unbelievably argues that the plant additions documentation Ameren provided after its rebuttal testimony filing represented only a <u>small</u> <u>fraction</u> of the disallowed costs. (Ameren BOE, p. 7, footnote 4) This argument can only be true if Ameren's last minute change to move electronic transaction amounts around to different categories within the projects costs is accepted. As noted in Staff's Initial Brief, the last minute revision to the project summaries zeroed out the amounts attributed to electronic transactions but increased other components of the projects' costs without any explanation. This last minute change was never proven by Ameren to be correct or accurate. (Staff IB, p. 41)

Ameren also makes the absurd claim that the filing schedules filed in compliance with 83 Ill. Adm. Code 285 ("Part 285") provided support for its plant additions. (Ameren BOE, pp. 9, 11) As thoroughly discussed in Staff's Reply Brief, the standard filing requirements are minimum filing requirements normally required of a utility to support its rate filing. (Staff RB, pp. 47-48) Compliance with the required minimum filing requirements does not equate to bearing the burden to support the costs of plant additions. Ameren's argument that it complied with the minimum filing requirements should not be a factor in deciding whether Ameren supported its plant additions.

Ameren persists in attempting to cast doubt on the merits of Staff's review since it claims that Staff failed to identify which individual invoices were disallowed and that

Staff did not rely on a statistical sample. (Ameren BOE, p. 8) What Staff provided Ameren was a list of invoice amounts that were found to be supportive of Ameren's plant additions. As discussed in Staff's Reply Brief, Ameren had sufficient information to determine which specific invoices were not included in Staff's calculation of project costs. (Staff RB, pp. 14-17)

Ameren argues against Staff's use of a judgment sample, yet Ameren advocates a contradictory position regarding its witness with respect to the study of AMS costs, which was also conducted using a judgment sample. (Staff BOE, pp. 3-5)

Ameren attempts to claim that Staff was foolish in not accepting the seemingly innocuous explanations for the respective differences between the support that was provided for plant additions and the "ledger-reported costs". To make its claim, Ameren sets forth five examples. (Ameren BOE, p. 10) Staff's Initial Brief contains extensive and detailed discussion of the reasons these explanations for these five examples are not credible. When Staff investigated these explanations, the explanations simply caused greater confusion. Ameren's responses to Staff data requests either retracted its earlier explanations, offered vague or differing generalities, or did not corroborate the explanations offered in its rebuttal testimony. (Staff IB, pp. 24-32)

Ameren proposes new language that Staff did not issue follow-up data requests to determine the veracity of the explanations Ameren provided in Ameren Ex. 19.12. (Ameren BOE, p. 11) This appears to be a simple attempt to discredit Staff. Ameren's proposed language ignores Staff's rebuttal testimony that addresses the deficient explanations offered by Ameren in Ex. 19.12. (Staff RB, pp. 16-17)

Ameren implies that Staff refused to review any information Ameren submitted in surrebuttal testimony or just prior to Ameren's surrebuttal testimony filing. (Ameren BOE, p. 9) Ameren fails to recognize the extent of work that would have been required by Staff to properly digest this volume of new, unorganized information. As discussed in Staff's briefs, it would not have been possible for Staff to make any sensible progress in its evaluation of this information at this late stage in the proceeding. (Staff IB, pp. 42-50; Staff RB, pp. 27-31) Ameren's suggested language on page 11 of its Brief on Exceptions for the Commission Conclusion section is without merit and should be ignored.

Ameren now erroneously claims in its Brief on Exceptions that it provided two forms of evidence to support its electronic transactions – internally generated documents and contractor affidavits. (Ameren BOE, p. 11) At least Ameren has come to understand that the support it offered for electronic transactions is nowhere as detailed as Ameren witness Craig Nelson testified on cross-examination. (Tr., pp. 1212-1213, July 1, 2008) He claimed initially that Ameren had provided three levels of support and then later changed the count to four levels of support. (*Id*.) These levels of support included: 1) the general ledger, 2) the accounts payable records and queries, and 3) internal generated invoice records. These levels of support are all from the same Ameren accounting system; therefore, they do not constitute even a second layer of support. (Staff IB, pp. 39-40) As Staff stated on numerous occasions, documentation that is produced from within Ameren's accounting system does not constitute third party support for project costs. (*Id.*, pp. 39-42)

Staff concurs with the Proposed Order's conclusion that "that vendors in all likelihood felt pressured to respond in a manner that AIU would deem favorable." (PO,

p. 42) Contrary to Ameren's assertion, there certainly is evidence in the record from which this conclusion could be drawn. Mr. Nelson testified that Ameren "sent the vendors a list of amounts that [Ameren] paid, payment dates, explanations of what we were after, some background information." (Tr., pp. 1191-1192, July 1, 2008) The affidavits and the facts surrounding them clearly lead to the Proposed Order's conclusion.

Ameren's assertion that the printouts of internally-generated contractor invoices are adequate support for its electronic transactions (Ameren BOE, p. 13) demonstrates that AIU is oblivious to the requirement for third party support. Ameren's repeated attempts to confuse the issue of what constitutes third party support has been thoroughly discussed and refuted by Staff in its Initial Brief. (Staff IB, pp. 39-40)

Ameren's assertion that no party challenged Ameren Ex. 19.13 as a "legitimate business record" (Ameren BOE, p. 13, footnote 5) is misleading at best. Staff challenged the usefulness of Ameren Ex. 19.13 since it did not consist of third party support for contractor invoices, but rather provided line items printed out from Ameren's accounting system. (Staff IB, pp. 39-40) Exhibit 19.13's validity as a legitimate business record is irrelevant. Ameren's suggested replacement language on pages 15-16 of its Brief on Exceptions for the Commission Conclusion section is without merit and should be ignored.

2. Plant Additions Disallowed in the Last Rate Case

Response to Ameren

Ameren's Brief on Exceptions complains about the Proposed Order's correct decision regarding the plant additions that had been disallowed in the prior case.

(Ameren BOE, pp. 17-20) Once again, Ameren attempts to confuse the issue by including statements that are not true. As stated in Staff's Reply Brief, Ms. Everson reviewed the information Ameren provided in rebuttal testimony, but that the information only reinforced Ms. Everson's concerns that Ameren could not support the plant additions that had been disallowed in the last rate cases. (Staff RB, pp. 28-29) The arguments Staff proffered in its rebuttal testimony and briefs applied to both sets of plant additions, since the reasons for disallowances were similar and Ameren's discussions and explanations regarding the documentation offered no substantive differences between the two; therefore, Staff's rebuttal testimony regarding plant additions since the last case likewise applied to plant additions disallowed in the last case. (Staff RB, pp. 8-10)

Once again in its discussion regarding plant additions disallowed in the last case, Ameren attempts to confuse the issue regarding the usefulness of schedules it provided in compliance with the Part 285 minimum filing requirements. This demonstrates a fundamental lack of understanding on Ameren's part of the purpose of the Part 285 minimum filing requirements. Ameren's assertion regarding Part 285 schedules is no more relevant to the plant additions disallowed in the prior case than it was in its discussion regarding plant additions since the last case. The minimum filing requirements are just that – minimum filing requirements that are normally required of a utility to support its rate filing. As stated in Staff's Reply Brief, the required Part 285 schedules contain summarized data, not the detail that must be examined by Staff to determine if the correct amounts for additions, retirements and transfers are recorded in the Companies' books. (*Id.*, pp. 7-8) Accordingly, Ameren's suggested language on page 19 of its Brief on Exceptions for the Commission Conclusion section is without merit and should be ignored.

V. OPERATING REVENUES AND EXPENSES

B. Resolved Issues

13. Test Year NESC Violation Correction Costs

Response to Ameren

The Commission should reject the revisions that AIU suggests regarding the Proposed Order's treatment of test year National Electrical Safety Code ("NESC") violation correction costs. In its Initial Brief, AIU plainly agreed to bear the cost of test year NESC violation corrections, when it stated, "Lastly, Ameren Illinois Utilities will bear all 2006 test year costs associated with the remediation of NESC violations." (Ameren IB, p. 125) Likewise, Staff stated in its Initial Brief its understanding that the issue of test year NESC violation correction costs was resolved. (Staff IB, p. 119) The Proposed Order simply and appropriately reiterates AIU's commitment made in the record by stating, "Additionally, the Commission agrees that AIU should not recover from ratepayers the costs incurred during the test year for these types of activities." (PO, p. 95) However, in its Brief on Exceptions, AIU recommends eliminating this sentence from the Proposed Order. The only plausible reason for AIU to recommend eliminating this sentence from the Proposed Order, which simply restates AIU's previous agreement, is that AIU would like to seek recovery of its 2006 test year NESC violation correction costs in future dockets. AIU appears to confirm this objective in its Brief on Exceptions, stating, "Nevertheless, the Proposed Order addresses the recoverability of those costs in future dockets." (Ameren BOE, p. 20)

The Commission should reject AIU's recommendation to delete its prior commitment to exclude 2006 NESC violation correction costs from rates. It is far too late in the proceeding for AIU to change its position regarding the previously resolved issue of AIU test year NESC violation correction costs. Staff never had an opportunity to address this issue its Initial Brief or Reply Brief, since AIU committed in its Initial Brief to bear these test year costs. Furthermore, evidence in this proceeding shows that AIU did not track 2006 test year NESC violation correction costs, so that the test year amounts each of the AIU agreed to remove from rates is only an estimated amount, an amount that does not have much effect in this proceeding. (Staff Ex. 10.0, p. 21 and Attach. G) Regardless, Ameren's Brief on Exceptions appears to indicate that in a future docket, Ameren might seek to assign those NESC violation correction costs to ratepayers. (Ameren BOE, p. 20) The Commission should reject Ameren's suggestion to eliminate the sentence in the Proposed Order that simply reiterates AIU's commitment, made in the record, to exclude test year NESC violation correction costs from rates.

C. Contested Issues

2. Incentive Compensation Costs

<u>Response to the AG</u>

The AG provides arguments (AG BOE, pp. 4-6) similar to Staff's arguments (Staff BOE, p. 36) rejecting the Proposed Order's conclusion which allows 50% recovery of Incentive Compensation costs to Ameren. While the AG's replacement language (AG BOE, pp. 6-7) differs from Staff's proposed replacement language (Staff BOE, pp. 37-39) on the issue, Staff would accept either version or a compromise of the two versions of replacement language on the issue.

4. Uncollectibles Expense

Response to the AG

The AG argues that the Gross Revenue Conversion Factor ("GRCF") has been overstated in the Proposed Order, since it is based on the ratio of uncollectibles accounts including uncollectibles related purchased gas revenues compared to delivery service revenues excluding purchase gas revenues. (AG BOE, p. 8) Ameren's rebuttal testimony adjusted the uncollectibles calculations to properly include the purchased gas uncollectibles costs as well as purchased gas revenues. This is reflected on Ameren Exhibits 19.4 (for the calculation of the uncollectibles percentage), and 20.1, 20.2, and 20.3 (for the GRCF schedules). While a comparison of the uncollectibles expense on Page 1 of Appendices D, E, and F with the revenues on those same schedules may seem that a higher uncollectibles rate is being used, it should be noted that the PGA revenues have not been included on the revenue requirement schedules. In addition, as noted in Staff's BOE, the adjustment for uncollectibles expense on the Appendices to the Proposed Order is duplicative and should be omitted based on the conclusion in the Proposed Order. (Staff BOE, p. 46) With the correction for the uncollectibles expense adjustment and inclusion of the PGA revenues in the total revenues compared to uncollectibles expense approved in the Proposed Order, the uncollectibles rates used for the GRCF correctly reflect the inclusion of PGA revenues. Since Ameren made the appropriate adjustment to reflect both purchased gas revenues and uncollectibles in the GRCF in its rebuttal testimony and schedules, the AG's argument is misplaced.

12. NESC Violation Correction Costs After the Test Year

Response to Ameren

The Commission should reject Ameren's arguments and proposed replacement language regarding NESC violation correction costs after the test year, presented on pages 20-28 of AIU's Brief on Exceptions. Ameren's Brief on Exceptions focuses on selective issues and largely reiterates the same arguments it asserted in its Initial Brief and Reply Brief, which Staff has already addressed. The Commission is correct in denying AIU the ability to collect from ratepayers costs for reconstructing existing facilities that the utility did not initially install in compliance with NESC standards. It would be wholly unfair for ratepayers to pay a second time for facilities that the utility, for unknown reasons, initially constructed improperly – facilities which are already in rate base and an investment on which the utility has already been earning a return. (Staff RB, p. 93)

AIU's Brief on Exceptions states that the Proposed Order's conclusion regarding costs for NESC violation correction: (1) is contrary to established Commission policy, (2) rejects on-point Orders without any grounds for the change, (3) fails to properly consider prudence, and (4) is contrary to the Public Utilities Act's (the "Act") goals and objectives. (Ameren BOE, p. 22)

AIU's statement that the Proposed Order's conclusion is contrary to established Commission policy is false and unsupported. AIU has attempted to spin its NESC violations into an acquisition issue, and then claim that the Proposed Order would discourage future acquisition of troubled utilities. The two dockets that AIU cites in its Brief on Exceptions, Rollins Sewer and Water Company, Docket No. 83-0693, and

Consumers Illinois Water Company, Docket No. 88-0045, involved water utilities and an entirely different fact pattern from the one in this proceeding. AIU also claims the Proposed Order relies on Staff testimony that is inconsistent with Staff's testimony admitted into the record on August 14, 2008 in Docket No. 08-0268, Aqua Illinois Inc., Annual Reconciliation of Purchased Water Surcharge ("Aqua"). (Ameren BOE, p. 21) This is not the case. The testimony in the Aqua docket involved the water utility exceeding the maximum unaccounted-for water percentage. That docket did not address a situation where there was an NESC violation that involved the safety of the public and utility employees. Further, the testimony was not a statement of Commission policy on troubled utilities. The testimony recognized that Aqua was asked to take over the troubled water system by Staff, the Illinois Environmental Protection Agency, and the Illinois Office of the Attorney General. The dockets cited by Ameren deal with the financial aspects of taking over a troubled water utility, not, as in this proceeding, the foisting of NESC violation correction costs onto an established utility's existing ratepayers who have already paid the utility to construct the facilities properly. (Staff RB, p. 91) None of the dockets cited by Ameren specifies that Commission policy requires that whenever a company purchases a troubled utility, any and all costs associated with that purchase (i.e., NESC violation correction costs) are borne by the ratepayers. In fact, Staff doubts troubled utilities would exist if the Commission established that all costs associated with every business decision made by every utility were ultimately borne by ratepayers. Ameren had the burden, in its reorganization or merger proceedings, of informing the Commission of the possibility that electric distribution facilities were not in compliance with the NESC, but failed to do so. This aspect alone distinguishes it from prior decisions cited by Ameren. Ameren's claim that the Proposed Order rejects on-point Orders is, therefore, also false and misplaced.

Likewise, AIU's fixation on the need for a prudence review for NESC violation corrections is inappropriate. Since an electric utility must correct NESC violations in order to maintain safety for the public and its employees, and to comply with Commission rules, there is no choice for the utility but to correct the violations, so a prudence review would be meaningless. (*Id.*, p. 87)

AIU's final claim, that the Proposed Order's conclusion is contrary to the Act's goals and objectives, is also unsupportable. Staff reiterates its arguments on this point as set forth in its Reply Brief. (*Id*., pp. 87-88) In addition, it is in the interest of equity and fairness to both ratepayers and the utilities that the Proposed Order does not require shareholders to bear the cost of correcting all NESC violations, but instead requires that shareholders are to bear the cost of correcting only those NESC violations that exist due to the utility's own improper initial construction. Ratepayers would bear the cost of correcting NESC violations that the utility did not cause through improper initial construction. (*Id.*, pp. 88-89)

Staff explained that 2007 was the first year Staff inspected distribution circuits for NESC violations related to down guys and overhead guys and Staff identified hundreds of locations on AIU's distribution circuits where these NESC violations existed. Ameren could have easily conducted similar inspections prior to acquiring CILCO and IP, and of course, CIPS was a predecessor company to Ameren. (Staff RB, p. 89) AIU does not know, and may never know, what percentage of existing NESC violations were the result of actions by a previous owner, and what percentage came to exist after Ameren ownership. (*Id*.) AIU might have known that information had it done the appropriate pre-acquisition inspections of IP and CILCO, but it chose not to do so. The information in the record regarding the estimated total number of locations on AIU's distribution systems with NESC violations, and the cost of correcting those violations, is from AIU. (Staff Ex. 10.0, p. 21)

Finally, Ameren's compromise proposal, as set forth in its Initial Brief, would require ratepayers to pay a second time for existing distribution facilities even though that work is necessary only because the utility initially constructed them improperly. Ameren's proposal is clearly not balanced or equitable and was correctly rejected in the Proposed Order.

The Proposed Order treats both shareholders and ratepayers fairly regarding costs associated with NESC violation correction. AIU's substitution language should be rejected.

VI. COST OF CAPITAL/RATE OF RETURN

E. Cost of Common Equity

<u>Response to CUB</u>

In its Brief on Exceptions, CUB recommends a cost of common equity of 8.28% for AIU's gas operations and 9.046% for AIU's electric operations. (CUB BOE, p. 13) CUB reiterates the same arguments presented in its testimony and briefs. The Proposed Order correctly rejected Mr. Thomas' entire cost of equity analysis. (PO, p. 210) The Commission should adopt the Staff's cost of equity recommendations as presented in Staff's Brief on Exceptions. (Staff BOE, pp. 82-85)

CUB claims that the Proposed Order ignored new academic evidence undermining the use of the CAPM for estimating utility returns on equity. CUB introduced the "Nagel Paper" to support its claims that the CAPM is an unreliable model and use of unadjusted betas is superior. The Proposed Order correctly concluded that the Nagel Paper did not support CUB's arguments against using the CAPM with adjusted betas. (PO, p. 207) The Nagel paper studied the use of unadjusted betas relative to the assumption of a universal beta of one, and was silent with respect to adjusted betas. The Nagel paper found that a market beta of 1.0 is superior to unadjusted betas. (Staff Ex. 17.0, p. 20) Therefore, Staff's betas, which are adjusted closer toward the market average beta, are also more accurate than unadjusted betas. Furthermore, the Gombola and Kahl article concluded that "an underlying mean of 1.0 is too high for most utilities." (CUB IB, p. 34) The Armitage text that CUB witness Thomas cited found that adjusted betas produce appreciably better forecasts, in direct contradiction to CUB's claim of increased inaccuracy. In fact, the very recent Order from Docket No. 07-0507 states:

> The Commission has reviewed the testimony and arguments offered by CUB in favor of using unadjusted betas and does not find them convincing.
>
> ****
>
> There is simply no support in the record for what appears to be an assumption by Mr. Thomas and CUB that a simplified version of the CAPM, where all betas equal 1.0, would have a lower forecast error than the traditional CAPM if adjusted betas had been used.
>
> ****
>
> In summary, the Commission does not believe that the Nagel Paper, as discussed in the record of this proceeding, undermines the usefulness of the CAPM in establishing the market required rate of return in utility rate cases. In fact, as discussed above, the Commission believes the Nagel Paper tends to support the long-standing proposition to which the Commission has subscribed: that the use of adjusted betas in the CAPM is preferable to the use of unadjusted betas. (Order, Docket No. 07-0507, July 30, 2008, pp. 87-88)

Consequently, the Proposed Order correctly concludes the same and rightfully rejects CUB's arguments against using adjusted betas. (PO, pp. 206-207)

CUB continues to argue that the estimated market risk premium ("EMRP") should be set at 5.0%. (CUB BOE, pp. 5-6) The Proposed Order rejected CUB's EMRP because, as Staff argued, it is not static over time. (Staff IB, p. 243; PO, p. 208) The Commission recently rejected CUB's proposed EMRP in Docket No. 07-0507, the most recent IAWC rate case, and should do the same here.

CUB urges the Commission to reject the quarterly DCF model and instead adopt an annual DCF model. (CUB BOE, pp. 7-9) The Commission has explicitly rejected the use of an annual DCF model in previous proceedings. (Staff Ex. 17.0, pp. 19-20) The Proposed Order correctly concluded that the quarterly DCF model accurately reflects the timing of dividend payments to investors, which is necessary to estimate the investor required rate of return. (PO, p. 208)

CUB continues to argue for the use of actual historical internal growth rates in the DCF model. CUB claims that forecasted analyst growth rates used in the DCF analyses of IIEC and Staff are overly optimistic and introduce upward bias into the DCF and produces unjust and unreasonable rates. (CUB BOE, pp. 9-12) The Commission correctly concludes that forward-looking estimates of growth are more appropriate and have routinely been adopted by the Commission, including Docket No. 07-0507, IAWC's most recent rate proceeding. (PO, p. 209)

<u>Response to IIEC</u>

IIEC requests that its CAPM estimate be included in the calculation of the cost of common equity. (IIEC BOE, p. 11) IIEC also claims that Staff's CAPM is unreliable because the expected market risk premium estimate was derived from a constant growth DCF analysis that incorporated “unreasonably high” analyst growth rates. (IIEC BOE, pp. 7-8) As Staff explained, IIEC did not factor in stock repurchases when estimating the growth rate that is implied in Staff’s calculation of the market risk premium. (Staff RB, p. 112)

The Proposed Order correctly rejected IIEC’s CAPM analysis because the EMRP failed to consider that the risk premium is not stable over time and relied largely on historical data, which is not a reliable predictor of future returns. (PO, pp. 208, 210) The EMRP used in Staff’s CAPM analysis is the only estimate that indicates the additional risk premium that common equity investors are expecting in today’s market. The past relationship between two investments is unlikely to be stable over time and the magnitude of the historical risk premium depends on the measurement period used. The Commission has consistently rejected use of historical data in determining the market risk premium in setting the investor-required rate of return on common equity. (Staff IB, p. 242) The Commission should reject IIEC’s arguments and substitute language for the Proposed Order.

VII. PROPOSED RIDERS

A. Rider VBA

Response to Ameren

Overview

Ameren continues to support its proposed Rider VBA, yet does not oppose the Proposed Order’s compromise position adjusting the customer charge to recover 80% of the Companies’ fixed delivery charges. (Ameren BOE, pp. 1-2) If the Commission is ultimately persuaded by the exceptions taken by the intervenors and Staff to the Proposed Order's compromise position to adjust the customer charge, yet wants to provide Ameren a mechanism for recovery of "fixed" costs, the Companies' proposal for Rider VBA should not be adopted. Rather, if the Commission finds a Rider VBA mechanism reasonable, Staff's alternative to the Rider VBA proposed by Ameren should be adopted. Staff believes that the shortcomings of the Rider VBA proposed by the Companies would be addressed by the revisions proposed by Staff, which would provide the necessary safeguards for ratepayers. (Staff IB, pp. 248-255) However, since Staff continues to support the position that Rider VBA be rejected (Staff BOE, pp. 98-104), Staff offers no replacement language containing its proposed revisions should the Commission ultimately decide to approve Rider VBA.

Adjustment to ROE

Ameren argues that Staff's proposed 10 basis point reduction to the return on equity for the gas utilities to reflect the reduction of risk is not justified. (PO, p. 3) Staff proposed the adjustment in the event the Commission approved Rider VBA to recognize the reduction in risk associated with the use of a decoupling mechanism, since AIU would have greater assurance of earning its authorized rate of return. Staff derived the 10 basis point adjustment in accordance with Moody's ratings methodology. (PO, pp. 200-201) Although the Proposed Order does not authorize the implementation of Rider VBA, it does authorize recovery of more of AIU's fixed costs through the customer charge. This change in cost recovery will similarly provide Ameren with greater assurance of earning its authorized rate of return. This reduction in risk must be accompanied with a reduction to the rate of return on common equity. Therefore, the

10 basis point reduction to the return on equity for the Ameren gas utilities should remain.

CIPS and CIPS Metro-East Rate Area

The Companies cite problems that arise from the Proposed Order's compromise, in lieu of Rider VBA, to allow 80% recovery of gas delivery fixed costs allocable to GDS-1 and GDS-2 customers through a monthly charge with respect to the CIPS and CIPS Metro-East rate area. (Ameren BOE, pp. 4-7) Staff continues to recommend that this is not the appropriate time to make drastic changes such as that recommended by the Proposed Order and by the Companies to combine the CIPS and CIPS Metro-East rate areas with respect to base rates. However, as the Proposed Order correctly reflects, Staff is not opposed to the consolidation of the CIPS and CIPS Metro-East PGA rates into a single PGA rate. (PO, p. 281)

VIII. COST ALLOCATION METHOD

A. COSS-Based Rates vs. Across-the-Board Rate Changes

<u>Response to CG and IIEC</u>

IIEC argues that the Proposed Order errs in adopting an across-the-board approach to revenue allocation and rate design. IIEC focuses on the Proposed Order's reasoning on this issue which referenced the customer impacts that resulted in the rate redesign docket, Docket No. 07-0165. (IIEC BOE, p. 13)

According to IIEC, "reliance on the Commission's decision in Docket No. 07-0165 is misplaced." IIEC argues that docket "focused primarily on residential space heating customers" and shifted some revenue responsibility to small non-residential customers. IIEC goes on to state that "[t]he Commission did not view this change as creating any presumptions for future cases". (*Id*., pp. 13-14) Furthermore, IIEC argues that the only proposal for DS-3 and DS-4 customers was the adoption of a rate limiter for certain customers. Otherwise, IIEC notes, "the Commission did not require large customers, such as DS-4 customers, to subsidize the service of other customers." (*Id*., p. 14)

The implication of IIEC's discussion is that the Commission can somehow address these unprecedented concerns about bill impacts by tweaking residential DS-1 and small non-residential DS-2 rates only while allowing larger DS-3 and DS-4 rates to rise or fall independently based on the associated cost of service. This argument fails to appreciate that the revenues received by all rate classes are inextricably intertwined. It is impossible to fine tune DS-1 and DS-2 rates in a vacuum while allowing DS-3 and DS-4 rates to adjust independently according to cost of service principles. If DS-3 and DS-4 rates go down because of the results of the Companies' cost of service studies ("COSS"), there would be no way to avoid raising DS-1 and DS-2 rates in order to give AIU the opportunity to recover their revenue requirements. There is simply no way, as IIEC suggests, to decouple revenue allocation for smaller and larger customers as IIEC suggests should be done. Thus, IIEC's argument on this issue should be rejected.

The CG also focuses on the Proposed Order's finding that rates should be increased on an across-the-board basis. According to the CG, "[t]his finding has two errors – 1) the rejection of Ameren's class COSS for any purpose; and 2) the complete failure in the name of rate mitigation to mitigate in the least the subsidy burden being borne by the DS-3 and DS-4 customer classes." (CG BOE, p. 2) The CG goes on to argue, "[t]he ALJs ignore the fact that some classes, particularly the DS-2, DS-3, and

Ameren IP's DS-4 customer class are bearing heavy subsidy loads in their rates." (CG BOE, p. 3)

The arguments by a number of intervenors against the Proposed Order's conclusion in favor of or in support of basing proposed rates on costs should be rejected. The extraordinary developments that have unfolded for Ameren customers since the expiration of the rate freeze on January 2, 2007 strongly argues for increasing rates on an across-the-board basis, rather than according to costs.

The intervenors present a host of arguments on behalf of a cost-based rate regimen. IIEC contends a cost-based approach "is consistent with the law and past Commission policy". It goes on to argue that this approach encourages efficiency which "is a declared goal and objective of the PUA". IIEC references the Act concerning the relationship between rates and costs. IIEC also argues that a cost-based approach is consistent with the Act's concept of equity that "the cost of supplying public utility services is allocated to those who cause the cost to be incurred." In contrast, IIEC contends that the across-the-board increases proposed by Ameren and Staff fall short of each of these standards and are, thereby deficient. (IIEC IB, p. 43)

The CG cites the Commission Order in Commonwealth Edison Company's last rate case in support of cost-based rates as well as its Order in Ameren's last base rate case reaching a similar conclusion. Thus, the CG argues that rates in this case should be based on cost, adding that "[a]n across-the-board increase would unreasonably harm those classes that are currently subsidizing other classes by increasing those subsidies further." (CG IB, p. 4)

Under normal circumstances these arguments for cost-based rates would be considered reasonable. However, ratemaking for AIU has been anything but normal since January 2, 2007. A cost-based approach would be dangerous and risky in the current regulatory environment. It is essential that rate design in this case focus on bill impacts because of the strong concerns of Ameren customers and the state legislature about bill impacts after the rate freeze expired on January 2, 2007 and continued through the year. The strength of this reaction resulted in the passage of rate relief legislation which included $1 billion in rate reductions to address adverse bill impacts. (Staff Ex. 6.0, p. 41)

The Commission itself also responded to the concerns of Ameren ratepayers and their representatives by launching an investigation in Docket No. 07-0165 to redesign rates to address adverse bill impacts. The Commission then accepted a fundamental redesign of those rates that provided "rate relief to those customers who have faced the largest increases…while ensuring that other customer groups are not unduly impacted by these rate mitigation measures." (Order, Docket No. 07-0165, October 11, 2007, p. 27)

It would not make sense to revise the design of Ameren rates in light of the recent rate redesign docket. Insufficient time will have elapsed from the conclusion of Docket No. 07-0165 to justify changes to the design of electric rates for Ameren customers. The rates approved in Docket No. 07-0165 did not become fully effective until January 1, 2008. Thus, when the rates approved in this case become effective later this year, they will replace rates from the redesign case that have been in effect for less than a year. It is difficult to conceive that the concerns by Ameren customers about bill impacts will have disappeared by then. Thus, it would be reasonable to assume that bill impacts continue to be the critical ratepayer concern for this case as well. (Staff Ex. 6.0, p. 42)

Further evidence about the problems ratepayers are encountering is provided by Ameren. A March 2008 memo by Scott Cisel to "all Ameren Illinois Co-workers" sums up the problems Ameren customers are encountering with their utility bills as follows:

> During my 33 years, I have never seen a situation like this. More than 1/3 of the residential customers have a 30 day or older past due amount. The total amount past due is more than doubled what it was a year ago. (Memorialization of Ex Parte Communication 3/20/2008)

Clearly, Ameren's residential ratepayers are already experiencing extraordinary difficulty paying their bills absent the increase in this proceeding. This problem indicates the extent to which bill impacts remain an overriding concern for Ameren ratepayers. (Staff Ex. 18.0, pp. 3-4)

The most appropriate rate design approach to address bill impacts for Ameren ratepayers would pass through to ratepayers any rate change resulting from this docket on an across-the-board, equal percentage basis. This approach provides the most consistency with the rates developed in Docket No. 07-0165 to address bill impacts. At this juncture, there is no evidence to indicate that one group of Ameren customers can more easily absorb a greater bill increase than another group of customers. The best approach in this situation then is to increase or decrease bills for all customers on an equal percentage basis. (Staff Ex. 6.0, pp. 42-43)

An equal percentage increase would signal to Ameren customers that the impact of higher rates will be equally distributed. Individual ratepayers will not be able to argue that they have been unfairly treated if they receive the same percentage increase (or decrease) as other customers of their utility. At a time when Ameren customers are clearly concerned about the level of their electric bills it would be unwise to further fan the flames by an unequal distribution of the rate increases or decreases. (*Id.*, p. 43)

Kroger's concern in this case is that DS-3 customers pay a substantially higher distribution charge than DS-4 customers. Kroger considers this differential unfair because it contends "there is no significant cost of service difference between DS-3 and DS-4 customers at the same voltage level". (Kroger BOE, p. 3) The issue here concerns the proper focus for ratemaking in this case. As Staff has consistently argued, the bill impacts crisis must take precedence for Ameren ratepayers. Thus, the rates that were devised in the Commission's recent rate design, Docket No. 07-0165 must provide the foundation for the rates developed in this case. Otherwise, the Commission faces the possibility of a ratepayer revolt that erupted after the rate freeze expired on January 2, 2007.

The LGI opposes the Proposed Order's conclusion with respect to street lighting rates for AmerenIP. Their position is that the increase in those rates be based on the incremental cost. The LGI states that under this approach, "the fixture charge will increase by only about 14 per cent for AmerenIP municipalities and the effect on other AmerenIP customers by about 1.3 per cent." The LGI goes on to find that "[t]his is not an adverse impact on other customers." (LGI BOE, pp. 2-3)

This proposal is problematic in two respects. For one, it conflicts with the argument previously presented about the importance of focusing on bill impacts through an across-the-board increase on existing rates. Second, the proposal that rates for one specific group of customers, AmerenIP's street lighting customers, be based on incremental costs would create a fundamental inconsistency with the Commission's preferred ratemaking approach based on embedded cost principles.

Staff would note that the Commission has, in fact, tried to use cost as a basis for the rates that went into effect for Ameren's bundled customers on January 2, 2007. The reaction was so great that the Commission was compelled to open an investigation of those rates that resulted in wholesale changes that were instituted to address bill impacts. In this case, the Companies are seeking further rate increases. It would be unrealistic to assume that ratepayer concern about the bill impacts resulting from these additional increases will be diminished in any meaningful way.

As discussed above, rate changes from Docket No. 07-0165 did not fully go into effect until January 1, 2008. (Order on Rehearing, Docket No. 07-0165, October 29, 2007, p. 2) The redesigned rates to address bill impacts will remain in effect for considerably less than a year before they return to a cost-of-service foundation under the proposal of some intervenors. If accepted, this would undo the efforts to address bill impacts for Ameren ratepayers.

Staff does not dispute the fact that cost-based rates are both equitable and efficient. Nevertheless, at certain junctures other criteria emerge as even more critical for the ratemaking process. For the reasons discussed previously, bill impacts continue to be the overwhelming concern for Ameren ratepayers and that is why an across-the-board increase on existing rates is the most reasonable approach in this case.

B. Cost of Service

2. Contested Issues

b. Minimum Distribution System (Electric)

The arguments by both IIEC and CG in opposition to the Proposed Order's recommendation against the Minimum Distribution System ("MDS") approach to the cost of service study should be rejected. This concept conflicts with cost principles and with Commission precedent as well.

IIEC continues to maintain it is providing a fresh perspective on the MDS that offers "an entirely new and practical means for establishing the cost" of the MDS. IIEC contends that "safety and reliability criteria" provide a basis to identify the customer-related costs of extending the distribution system. (IIEC BOE, p. 18)

IIEC's arguments are unreasonable. The contention that safety and reliability are somehow new developments for the regulatory process to consider is obviously wrong. These issues have existed since the electric industry began. IIEC fails to provide a coherent explanation why safety and reliability should be regarded as new information for the Commission to consider in the cost allocation process. (Staff Ex. 18.0, p. 47)

Second, it is difficult to conceive how safety and reliability are related to the number of customers on the system. The premise of the MDS system is that there are costs that pertain to connecting customers to the system, independent of the amount of demand. If the purpose of the distribution system were simply to connect customers, then safety and reliability issues would be a small fraction of their current levels. What creates significant safety and reliability concerns is the electricity that courses through the system. Stated otherwise, the nature of electricity shapes safety and reliability standards and drives the associated expenditures. (Staff Ex. 18.0, pp. 47-48)

The MDS is a flawed concept that has been consistently rejected in previous cases and should be rejected in this case as well. Furthermore, there is no reasonable evidence in this proceeding to demonstrate that it should be incorporated into future rate cases for AIU.

IX. RATE DESIGN/TARIFFS TERMS AND CONDITIONS

D. Contested Gas Issues

1. Gas Bank Sizing and Daily Balancing Tolerances

Response to Ameren

AIU uses a worst-case scenario to point out several concerns about its ability to deliver gas from its storage fields if the Proposed Order's conclusion setting the level of a customer's injection and withdrawal limits at 1 times Maximum Daily Contract Quantity ("MDCQ") is granted. (Ameren BOE, p. 28) While the worst-case scenario is unlikely, it does illustrate potential problems that arise when transportation customers are given this much flexibility. While AIU overstates its case and offers an already rightfully rejected solution, its comments add weight to the middle ground of Staff's proposal in this case.

Ameren has had the opportunity throughout this case to make these points and has failed to do so until now. CNE-Gas first made this recommendation in its rebuttal testimony, CNE-Gas Exhibit 2.0 on page 42. AIU never responded to this until now.

Staff recommended 20% injection and withdrawal limits. (Staff IB, p. 303) These measured limits were never refuted by AIU so that it might be inferred that AIU does not believe that the issues that it has brought up with CNE-Gas' proposal apply to Staff's proposal. Therefore, Staff's proposal would be an appropriate middle ground in this case and would allow the Commission to address the concerns, raised by CNE-Gas, which are clearly recognized in the Proposed Order.

The Proposed Order has correctly identified that withdrawal and injection limits proposed by AIU (which were limited to zero plus the 15% imbalance tolerance) did not provide equal access to LDC assets to transportation customers. However, Staff respectfully recommends its more measured injection and withdrawal limits of 20% of Daily Confirmed Nomination for large customers with daily balancing as the appropriate middle ground in this matter.

Ameren's argument with respect to injection and withdrawal limits is flawed because it underestimates the flexibility that currently exists on its systems. Under CILCO's current tariffs, there is already significantly more freedom compared to both AIU's proposed tariffs and the Proposed Order. There is currently no withdrawal limit on any day other than Critical Days; there is no injection limit other than the Maximum Daily Nomination, minus what ever usage the customer has. Also, since accounts are not settled until the end of the month, CILCO transportation customers can do whatever they want at this point as long as they get their accounts balanced before the end of the month. Therefore, the only concern can be with regard to IP and CIPS which will see increased flexibility as a result of the Proposed Order. However, if CILCO is able to manage its system with its current resources without calling numerous Critical Days, then providing more flexibility for other utilities can also be done. It certainly may require more resources, but Ameren has not proven this.

Staff believes that while some of the concerns that AIU brings up <u>may</u> be valid, AIU overstates their extent by including in its calculations data from CILCO and Rider OT customers under IP. At a minimum, one must subtract the 187,000 MMBtu/day from AIU's comparison. When looking at the increased flexibility that IP would have, one must subtract the Rider OT volumes because OT customers are already provided with <u>more</u> flexibility than the Proposed Order allows. Therefore, AIU's calculations are inflated.

AIU states that it can reasonably accommodate the Proposed Order with existing resources. (Ameren BOE, p. 28) According to the comparison AIU provides on page 33, this includes absorbing 73,500 MMBtu. Therefore, there must be some ability of the system to absorb some flexibility. Staff holds that because AIU never objected to Staff's proposed injection and withdrawal limits, AIU does not contest that its system can absorb this increased flexibility.

AIU claims that marketers will leave firm service on pipelines and rely on interruptible contacts. (Ameren BOE, pp. 30-31) However, nothing in the record indicates that this is a possibility. AIU made no such claims that marketers were not using firm contracts on CILCO's system. In fact, little of this is dealt with in the record. Ameren has not claimed that it cannot provide <u>any</u> injections or withdrawals. It has just claimed that it cannot provide the flexibility that the Proposed Order has provided. That is why it is important to note that Staff's injection and withdrawal proposal did not receive any objections.

Therefore, Staff objects to AIU's proposed language as it unnecessarily limits injections and withdrawals to the level of the imbalance tolerance. Although AIU did not explicitly propose to change the post-bank tolerance decision from the Proposed Order (PO, p. 307), its language here would erase that decision because there would be no bank activity to which to apply the imbalance tolerance. However, Staff would agree to the language which requires AIU to study the feasibility of the CNE-Gas proposal.

Response to CNE-Gas

Staff has a different position as the CNE-Gas with regard to the bank size. (CNE-Gas BOE, pp. 3-4) For the reasons set forth in its Initial Brief, Staff believes that the 10 times MDCQ bank is the appropriate size for the bank. Therefore, Staff finds that the language proposed for the Proposed Order by CNE-Gas is not acceptable.

Response to IIEC

Staff has the same position as IIEC with regard to the daily balancing tolerance remaining at 20% instead of the 15% that is included in the Proposed Order. (IIEC BOE, pp. 21-24) Staff finds that the language proposed for the Proposed Order by IIEC is acceptable, but less preferred than that recommended by Staff in its Brief on Exceptions.

6. Daily Telemetry

Response to GFA

Staff has a similar position as the GFA with regard to the requirement for Daily balancing and telemetry. (GFA BOE, pp. 3-5) Staff finds that the language proposed for the Proposed Order by GFA is acceptable, but less preferred than that recommended by Staff in its Brief on Exceptions.

8. 12-Month Notification for Seasonal Customers

Response to GFA

Staff has a similar position as the GFA with regard to the notification for seasonal customers. (GFA BOE, pp. 1-4) Staff finds that the language proposed for the Proposed Order by GFA is acceptable, but less preferred than that recommended by Staff in its Brief on Exceptions.

13. Purchase/Confiscation of Customer-Owned Gas

Response to CNE-Gas

Staff has a similar position as the CNE-Gas with regard to the confiscation of customer-owned gas. (CNE-Gas BOE, pp. 8-10) Staff finds that the language proposed for the Proposed Order by CNE-Gas is preferred to that recommended by Staff in its Brief on Exceptions.

E. Contested Electric Issues

1. Rate Limiter

Response to CG and IIEC

A number of intervenors complain about the Proposed Order's recommendation to extend the rate limiter. The CG argues that by extending this mitigation mechanism "the ALJs continued to ignore costs in setting rates and also ignored the class subsidy burden DS-3 and DS-4 customer classes are already bearing." The CG goes on to argue that "phasing out the rate limiter would mitigate the increased interclass subsidy burden that DS-3 and DS-4 customers would be required to bear under an across-the-board rate increase." (CG BOE, p. 6) IIEC argues that there is no evidence that elimination of the rate limiter would necessitate the need for a rate redesign similar to Docket No. 07-0165. (IIEC BOE, p. 25)

These arguments are not persuasive. As previously discussed, the focus of rate design in this proceeding has been bill impacts and the means to address those impacts is across-the-board increases on existing rates. Again, it would not make sense from a consistency standpoint to adopt this across-the-board approach for the large majority of charges while making exceptions for this small set of charges. The approach that distributes the burden of any rate change most equitably and is most understandable to ratepayers is an across-the-board change to all rate elements. It is difficult to conceive how the specific exceptions proposed by these intervenors will benefit the ratemaking process. (Staff Ex. 18.0, pp. 44-45)

STAFF'S RESPONSE TO PROPOSED TECHNICAL CORRECTIONS

Response to Ameren

1. Previously Uncontested Plant Additions Calculations

In its first technical correction, Ameren states that the Proposed Order errs in not calculating amounts of accumulated depreciation, depreciation expense and accumulated deferred income taxes to correspond with the Proposed Order's adjustment for plant additions since the last rate case. (Ameren BOE, p. 34) Staff concurs with the premise that Accumulated Depreciation, Depreciation Expense and Accumulated Deferred Income Taxes should be calculated, but differs with Ameren in that the Commission should use Staff's adjustment percentages as shown on Staff Ex. 14.0R, Schedules 14.03-E and G to calculate these amounts. See the discussion regarding the next technical correction below.

In its second technical correction, Ameren claims the Proposed Order errs by not reflecting adjustments already included in the Ameren Illinois Utilities' rebuttal testimony and refers to Appendix C of its Brief on Exceptions. (Ameren BOE, pp. 34-35) Ameren proposes, in Appendix C of its Brief on Exceptions, that the Proposed Order's adjustment amount should be reduced by the adjustment amount proposed in Ameren's rebuttal testimony and use the adjustment amount it proposed in Ameren Ex. 19.12. The problem with this proposal is that Ameren's rebuttal adjustment number was calculated using <u>Ameren's adjustment percentage</u> which includes unsupported amounts, not the adjustment percentages used by the Proposed Order. Ameren's rebuttal testimony adjustment percentage assumed that many of the additional explanations provided in Ameren Ex. 19.12 were sufficient to support its plant additions. This is demonstrated by reviewing Ameren Ex. 19.12, Schedules 1-CILCO E, 2-CIPS E, and 3-IP E, and comparing them to Staff Ex. 14.0R, Schedules 14.03 E and G. The following table summarizes the differences in the adjustment percentages that Ameren is claiming to be a technical correction, when, in fact, it appears to be a thinly veiled attempt to infuse its numbers into the revenue requirement, in contradiction of the Proposed Order's language.

Company	Staff's Percentage used in PO	Ameren's Percentage from Ameren's BOE (originally presented in Ex. 19.12)
AmerenCILCO Electric	35.45%	24.45%
AmerenCIPS Electric	2.35%	0%
AmerenIP Electric	12.78%	.40%
AmerenCILCO Gas	11.58%	1.91%
AmerenCIPS Gas	25.56%	3.66%
AmerenIP Gas	51.74%	1.51%

Staff has thoroughly discussed why the explanations offered in Ameren's rebuttal testimony were insufficient (Staff IB, pp. 24-34) and the Proposed Order has adopted Staff's position. Ameren's proposed technical correction would have the effect of changing the Proposed Order's conclusion to Ameren's rebuttal position and adjustment percentage which includes unsupported amounts, not the adjustment percentage accepted by the Proposed Order. Ameren has not provided sufficient support for its plant additions and the adjustment percentage used in the Proposed Order is correct.

2. Cash Working Capital for Gas in Storage

Ameren's next correction concerns the accounts payable component of gas in storage. (Ameren BOE, pp. 35-36) Ameren is correct that since the Proposed Order starts with Ameren's rebuttal position, and Ameren had accepted the adjustment for accounts payable, Ameren's rebuttal position already included an adjustment for accounts payable. Thus, Staff concurs with Ameren's technical exception for gas in storage.

3. Collateral and Prepayments

Ameren claims that the adjustments shown on the Proposed Order's Appendices for collateral and prepayments are overstated, since they do not consider the portion of the adjustments already included in the starting point for the adjustments, which was AIU's rebuttal position. (Ameren BOE, p. 36) Staff concurs with this exception and agrees that the amounts on Ameren's Appendix C, page 8 are the correct adjustment amounts to reflect the conclusion in the Proposed Order. Further, if any changes are made to the conclusion on this issue in the Final Order, the Appendices should correctly reflect that conclusion.

4. Uncollectibles

Ameren points out that the amount of the adjustments for uncollectibles expense which are already reflected in the Companies' rebuttal position should not be made a second time. (Ameren BOE, p. 37) Staff also noted this problem. (Staff BOE, p. 46) As such, the Appendices should be corrected to reflect the conclusion in the narrative of the Final Order.

5. Gas Operations Tariffs

Ameren notes that the Proposed Order's Appendices D, E, and F, column (h), line 2 should reflect an adjustment to operating revenues for changes in the Companies' gas operations tariffs adopted by the Proposed Order, which amounts in turn offset on line 1. (Ameren BOE, p. 37) Staff agrees with the numbers provided by Ameren for Other Revenue, as discussed in Staff's Initial Brief. (Staff IB, p. 283)

6. Cash Working Capital

Staff agrees with Ameren's statement that the specific issue of the CWC component of the Supply Cost Adjustment is resolved neither in the Supply Cost Adjustments section (PO, p. 284) nor in the CWC section (PO, pp. 51-60) of the

Proposed Order. (Ameren BOE, p. 38) In addition to various changes to the Proposed Order's description of the CWC adjustment, Staff included revised language in its BOE to clarify the Commission's conclusion regarding the adjustment. (Staff BOE, p. 106) Ameren's BOE did not suggest alternate language or a conclusion; therefore, the Commission should adopt Staff's recommendations.

7. Footage Allowance for Service Connections

Ameren suggests substitute language for the Resolved Gas Issue, Footage Allowance for Service Connections, discussed on page 280 of the Proposed Order, in an effort to eliminate confusion. (Ameren BOE, p. 38) Staff has no objection to Ameren's proposed substitute language regarding this issue.

CONCLUSION

For all the reasons set forth herein, Staff of the Illinois Commerce Commission respectfully requests that its recommendations be adopted in this proceeding.

Respectfully submitted,

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August 27, 2008

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